

Restaurant Business

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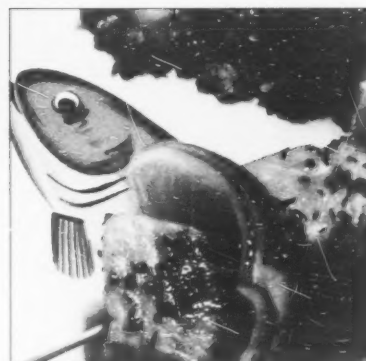
COVER STORY VICORP

Does VICORP have a tiger by the tail with its bold purchases, including the recent acquisition of 183 Sambo's Restaurants? The company's management team, led by chairman of the board Gordon Miles and president Charles (Buck) Frederickson, expresses confidence that its strategy is sound and will bear fruit in the long-term..... 115

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Cover Illustration
by Tom Thorspecken

Chicken chains compete for changing consumer

by Ralph Raffio

The chicken market segment has diversified; it has broadened in product, in decor packages stressed, and in participants selling its primary commodity.

From traditional fried to charcoal-broiled, boneless breast to nuggets, America's taste for chicken has never been greater.

Neither, in fact, has competition in the menu segment. Just as the restaurant industry has fragmented over the years, creating and filling niches in every corner, so has the chicken market diversified. It has broadened in product, in decor packages stressed, and in partici-

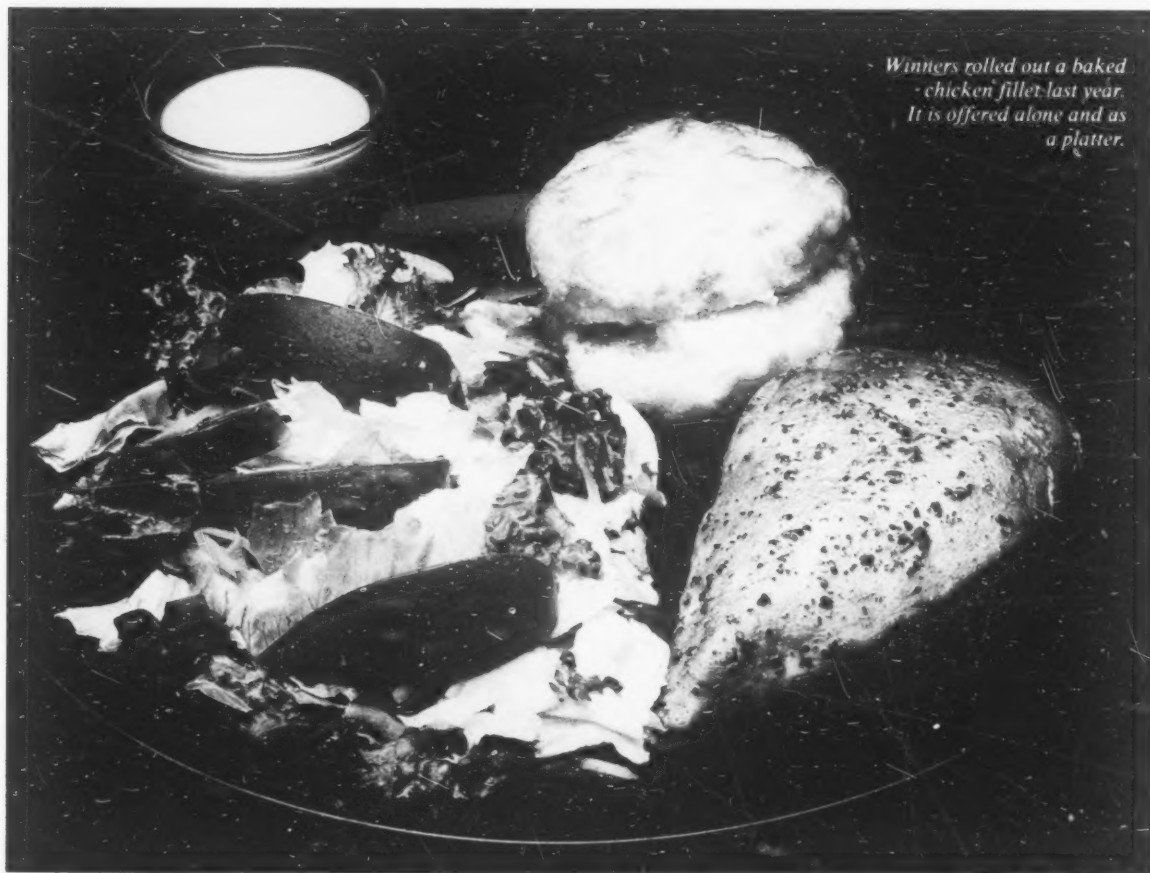
pants selling its primary commodity. Industry onlookers say the chicken segment—long the domain of giants like Kentucky Fried Chicken and Church's—has arrived on the fast food battleground with more competing factions wrestling for market position than ever.

There are probably more restaurants serving chicken right now than at any other time. According to Restaurant Consulting Group's RE-

COUNT survey, chicken restaurants in the U.S. totalled 11,624 in 1985. Chicken outlets account for 3.5 percent of the total restaurant market.

But there's more to this market segment's story than just those numbers. Practically every major fast food chain also offers a chicken item today, not to mention all the mid-priced dinner houses and family restaurants which have further stressed

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Winners rolled out a baked chicken fillet last year. It is offered alone and as a platter.



El Pollo Loco added combo platters of charbroiled chicken to boost lunch sales.



poultry on their menus—none of which are included in the RE-COUNT data compiling the total number of chicken outlets.

McDonald's Corp. is among the largest purveyors of chicken in the country today, having taken the market by storm with Chicken McNuggets, and may soon extend its reach. Though the company will not confirm specific details, industry onlookers expect McDonald's next product rollout to be a chicken sandwich. There are currently two items in test, according to industry sources, both geared to respond to consumer demands for healthy food. In Minnesota, the hamburger giant is reportedly testing a grilled, non-breaded whole muscle chicken fillet on a multi-grain bun. In some New Jersey/Philadelphia stores, a lightly breaded fried chicken product with one-third the breading content of its

processed McNuggets has been in test for some time, selling for \$1.59. It would have the same toppings and packaging as the McD.L.T.

Wendy's has done well with its whole fillet chicken breast sandwich, and Burger King is testing chicken fingers. The list goes on.

At the heart of all this growth is the fact that chicken is perceived as healthy food by consumers, lower in calories and fat than beef or pork. Chicken is also versatile enough for any operation to include on its menu. No operator or chain can ignore the potential of chicken.

Chicken prices have come down as well. Broiler prices averaged about 50 cents per pound last year, down from 55.6 cents in 1984, according to the National Broiler Council (NBC) in Washington, D.C. Production was up five percent in 1985.

Perhaps the most telling statistic,

however, was that one in every seven pounds of broilers sold was boneless. Before 1980, boneless product accounted for only one in 20 pounds. According to the NBC, by 1990, boneless chicken will represent one in three pounds of all broilers sold.

Nugget mania continues

Increasing demand for boneless chicken is largely the result of nugget mania, as well as growing demand for boneless breast items. Every major fast food chicken chain now offers chicken nuggets, many having introduced them last year. Even the so-called upscale chicken chains like Saga Corp.'s Grandy's Country Cookin' are moving ahead with nugget introductions.

"Nuggets are strengthening our lunch and snack sales," says Kentucky Fried Chicken spokesman Billie Brown. "We've been very pleased with the way they've added to our menu." Kentucky Nuggets account for upwards of 14 percent of total sales currently. KFC is promoting heavily through advertising which positions its product against McNuggets, claiming better taste based on consumer tests.

Church's Fried Chicken, Popeyes, Bojangles' and other chicken chains offer nuggets, the latter two having rolled them out just last year. Popeyes introduced Cajun Nuggets, made from whole meat fillet with a spicy coating. According to Lamar Berry, vice president, marketing, for the 540-unit chain, nugget sales are running as high as 12 percent of total sales in some units.

"It's more expensive using a whole meat product, but we think the consumer can tell the difference between it and a nugget made from fused product," says Berry.

Bojangles' president E. Christian Schoenleber says his company's 1985 nugget rollout has received a "fair" response.

Move toward nonfried

While nuggets continue to be hot, another trend is emerging which might further bolster chicken sales—a growing movement toward nonfried chicken. Though most

KFC's Casa Blanca decor is designed to boost dine-in business.

chains are tight-lipped about testing nonfried items, enough evidence is available to conclude there is widespread interest and testing.

Winners Corp. led the pack last year by rolling out a baked chicken fillet. The chain's move was widely hailed as a bold step toward addressing the consumer trend toward lighter foods and less frying, though costs incurred from the rollout hurt profits. Nonetheless, Winners claims the product itself is a good one. "It's allowed us to touch a consumer segment we weren't involved with before," says Stephen Gendreau, director of marketing. "It's also a very good dinner item when served with two side dishes."

Winners, which operates the Mrs. Winners Chicken & Biscuits chain, offers the baked fillet by itself or with side dishes as a platter. The company is also testing a soup and salad program and claims that initial results have been favorable. "This fits into the lighter fare trend as well," says Gendreau.

Winners' bold jump into nonfried chicken has caused others to look hard at their own menus. However, according to most chain executives, not much has gone past the test



stage. Some, like market leader KFC, are not talking at all about their interest in the market, while others admit testing.

"We're always testing all kinds of products," says KFC's Brown when asked if KFC is testing a baked chicken item. "Until we get ready to go into a store, we couldn't make an announcement." Reports from around the industry are that KFC is indeed testing a nonfried item, but little is known beyond that.

Church's vice president, marketing, Fred Gonzales, offers quite a bit more. "We are working on a nonfried product, which should be out

by mid-1986," he says, though he will not elaborate. If Gonzales's prediction is correct, however, it could mean a lot to the whole segment. A chain of Church's size committing to nonfried chicken will certainly spread enthusiasm to other chains, as was the case last year when the chain rolled out catfish. According to Gonzales, catfish, which is gaining a lot of interest from the industry, accounts for seven percent of sales currently.

Among some of the other chains testing nonfried chicken are Popeyes and Sisters Chicken & Biscuits, the

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Church's rolled out catfish last year; the product now accounts for seven percent of sales.

Most of the fried chicken chains admit to testing nonfried products, addressing the consumer trend toward lighter foods and less frying.

Wendy's subsidiary. Popeyes is in the test kitchen stage with a product. Sisters, which rolled out catfish last year in order to round out its menu, has been testing baked chicken for a year in one Ohio store. "We haven't any plans to roll it out at this time," says Tom Heskamp, marketing manager for the 85-unit chain. "I do think we'll be seeing more of these types of products showing up around the market. They are definitely perceived as being healthier by the consumer."

According to Bojangles' Schoenleib, however, the chain has already discontinued a baked chicken test. "There's a lot of talk about nonfried chicken getting popular," says the Bojangles' president. "We tested baked chicken a while ago, but decided early on that it just wasn't right for Bojangles'."

"This market is getting a lot more competitive," says Steve Robinson, vice president, marketing, Chick-fil-A. "But we feel it's been working to our advantage." Chick-fil-A has been in the boneless chicken market from the beginning with its chicken breast sandwiches, and was one of the first chains to roll out a nugget.

Charbroiled chains expand

While the fried chicken chains—both fast food and upscale—are trying nonfried chicken, the charcoal-broiled chains are refining their operations to compete more effectively in the market. Most notable are El Pollo Loco, El Pollo Asado, and Marco Pollo. If a consumer likes chicken, and likes eating healthy without much fat, these chains should benefit with marinated chicken cooked over a grill.

"Unlike some other claims, our health angle is real," says Don Pierce, president of El Pollo Loco, a Denny's division. "This concept is having significant impact on fast food fried chicken, and I think we'll be seeing more nonfried items showing up among the larger chains."

El Pollo Loco, says Pierce, targets the fast food fried chicken customer. In 1985, the chain, now 50 units strong, added family packs of 8- and 12-piece orders. El Pollo Loco also added 2- and 3-piece combo plates at lunch last year to boost daytime sales. "Our number one strategy is to get customers away from fast food fried chicken outlets," says Pierce. The company began franchising last year, and hopes to open another 40 units this year. A major franchise deal was signed with Burger King

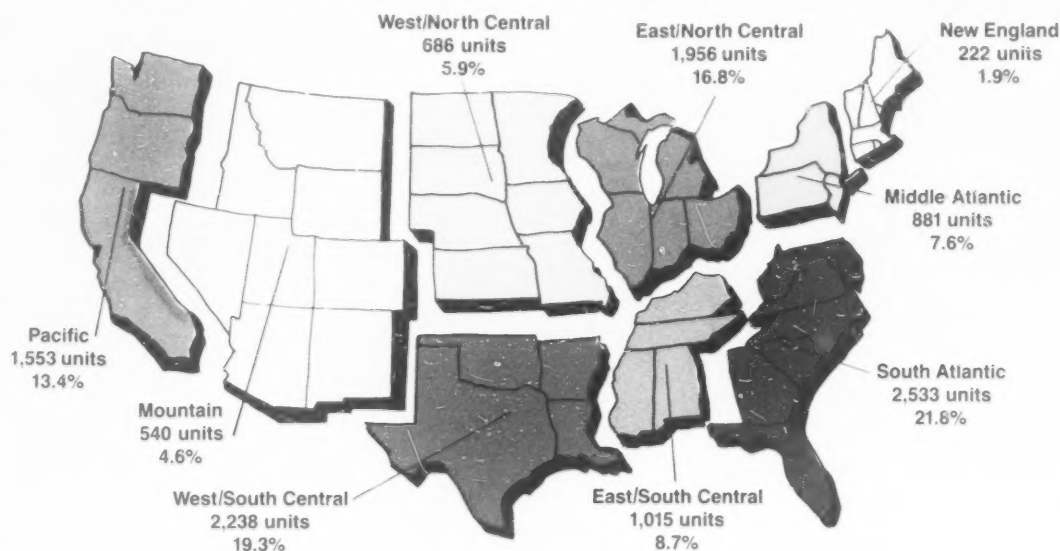
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The South loves its chicken



Southerners really support the chicken segment. The South Atlantic alone accounts for more than one-fifth of the country's chicken restaurants.



Note: Percentages represent distribution of chicken restaurants by Census region. There are 11,624 chicken restaurants in the U.S.; 3.5 percent of total U.S. restaurants.

Source: Restaurant Consulting Group, RE-COUNT, Spring 1985.

Key: ■ darkest areas indicate highest concentration of units. □ lightest areas indicate lowest concentration of units.

The segment continues to refurbish older units; upgraded decor and more seating are aimed at increasing dine-in trade in this largely take-out segment.

franchisee Davco last year to develop the Orlando, Fla., area.

El Pollo Loco is also testing a boneless chicken breast sandwich, though the item is still in research and development. "We might test it this year," says Pierce, agreeing that boneless chicken is a hot item.

Don Seidholtz, vice president, marketing, for the 15-unit El Pollo Asado, says the Phoenix-based charbroiled chicken chain added Mexican items to its menu last year, accounting for seven percent incremental sales.

"The exciting thing about this market is that its newness protects it from the flat sales the rest of the industry is experiencing," says Seidholtz. "There's also tremendous growth for charbroiling because it's an empty niche."

Seidholtz adds that competition from the big fried chicken chains isn't likely. "Operationally, it would be very hard for fried chicken chains to switch over or add charbroiling to their mix. They'd have to add too much equipment." However, he adds, "I could see Burger King looking at a charbroiled chicken breast. That would fit their operation pretty well." Seidholtz says El Pollo Asado is not testing a boneless product at this time, though he does not rule it

out as a possibility.

While in the middle of a boom in boneless chicken, Chick-fil-A is also operating within the same competitive environment that spawns other changes. The chain, with about 325 units in mall locations, is in the process of refurbishing all its units, and is also beginning to build freestanding stores. "Everyone's growth is prohibited from one thing or another," says Robinson. "Our growth is very much the function of what mall developers do, and right now they're not doing too much."

To secure further growth, Chick-fil-A is looking to develop a chain of freestanding units. Two types are being tested: a 24-hour concept, and a 90-seat unit for suburban areas.

Refurbishing continues

Chick-fil-A isn't alone in struggling to find the right package in the right location targeted at the right consumer. A lot of refurbishing continues to go on in the market segment, along with a lot of rethinking about what the customer wants.

KFC is now building restaurants with bigger lobbies, booth-seating, and upgraded decor packages in an attempt to bolster dine-in business and overall sales. Under a program for building new units and remodel-

ing older ones, known as "Colonel's Classic," KFC's new units are built to accommodate the market both inside and out. One package, "Casa Blanca," fits arid environments with ceiling fans and tile floors, while "Spectrum" touts a high-tech look for urban locations.

"It costs a little more to build these units, but we've been seeing sales increases in those that have opened," says KFC's Brown. "We're also encouraging franchisees to go with the Colonel's Classic."

KFC's move toward more comfortable, better looking restaurants may be designed to boost dine-in business, an area where fast food chicken chains have historically done little. Though Brown agrees that new units are showing some increases in dine-in activity, she denies that is their only advantage.

"Yes, we do see increases in dine-in sales, but overall sales are also up," says Brown. "We're attracting new customers with the new designs, but we're also seeing older customers coming back."

Church's is taking a different approach. In a chicken market where upscaling and increased dine-in sales are often the name of the growth game, Church's has targeted mini-stores for its growth.

"We are not targeting dine-in business," says Church's Gonzales, who says 85 percent of the chain's sales come from take-out. The chain, which has built about 40 mini-stores, expects 40 to be added this year.

Church's decision to maintain heavy emphasis on take-out through developing mini-stores may well turn out to the company's advantage. But it is unusual considering where the rest of the chicken market is going in terms of building dine-in business. Nonetheless, Church's, like most others in the market, will continue expanding its base to attract more customers. And in the chicken market, those customers are coming from all over. □



Popeyes' Cajun Nuggets are made from whole muscle fillet with spicy coating.